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# CALIFORNIA STATE AUDITOR

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### **Joint Legislative Audit Committee Hearing** **California State Auditor** **Testimony May 27, 2009**

#### **Overview**

The federal American Recovery and Reinvestment Act of 2009 (Recovery Act) is intended to create and save jobs, jump-start our economy, and build the foundation for long-term economic growth. The Recovery Act includes measures to modernize the nation's infrastructure, enhance America's energy independence, expand educational opportunities, increase access to health care, provide tax relief, and protect those in greatest need. Recognizing the enormity of federal funds appropriated for distribution to state and local governments by the Recovery Act, it calls for rigorous and continuous oversight of the distribution and expenditure of those funds. The question everyone has been asking is whether California is prepared to receive and properly account for, spend, and report on the funds.

Given the vast amount of federal funds that California expects to receive under the Recovery Act, oversight and accountability responsibilities for state auditors including the California State Auditor's Office will increase dramatically. In fact, because of concerns related to internal controls, the large amount of Recovery Act funds California expects to receive, the new requirements the federal government is imposing on recipients, and the limited time the State has to spend some of the funding, we added California's system for administering federal Recovery Act funds to our list of statewide high-risk issue areas.

In determining whether California is prepared, it is imperative that we first identify areas of known deficiencies and ensure corrective action is taken. The federal Government Accountability Office (GAO) has stated that "the single audit process is a major accountability vehicle" and both the GAO and the U. S. Office of Management and Budget (OMB) have stated that the Single Audit is important for effective oversight and have indicated it will be the starting point for reviews and assessing risk to identify vulnerabilities or high-risk programs. For example, a program that will double in funding or has not been audited for two years would be considered high risk.

#### **What Is the Single Audit?**

Since 1985 and as mandated in statute, the California State Auditor's Office, and its predecessor, has annually conducted California's statewide Single Audit—a combination of the independent audit of the State's basic financial statements and the independent audit of numerous federal programs administered by California. The federal government requires the Single Audit to be conducted as a condition for California to receive billions in federal funds each year.

Congress created the Single Audit Act of 1984 (Act) to improve auditing and management of federal funds provided to state and local governments. The Act requires a single organization-wide financial and compliance audit by an independent auditor for state and local governments. The Act is intended to promote sound financial management, including effective internal controls, with respect to federal awards administered by state and local governments and nonprofits. Internal controls encompass a system of accounting and administrative controls. Such controls include management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. State law requires each state agency to establish and maintain a system of internal accounting and administrative controls.

In addition to internal controls, the Act dictates that the compliance audit also focus on compliance with laws and regulations governing federal awards. Compliance refers to how well the respective agency receiving federal funds adheres to the requirements in federal law, regulations, contracts, and grants applicable to each of its federal programs.

As required by the Act, my office complies with *Generally Accepted Government Auditing Standards* when conducting the financial and federal compliance audit. The United States Comptroller General/GAO issues these standards. In addition, the OMB issues guidance for auditors to follow when conducting the Single Audit. This guidance is intended to provide for consistency and uniformity for the audit of the expenditure of federal awards by states, local governments, and nonprofit organizations. The guidance identifies 14 federal compliance requirements listed in the attachment (on page 10) that our teams audit when they have a direct and material effect on major programs.

## **2008 Single Audit Results**

The number and type of federal programs audited each year as part of the Single Audit is formula-driven as stipulated by the federal OMB. From July 1, 2007 through June 30, 2008, California received nearly \$87.4 billion in federal funds to carry out over 323 programs and program clusters—with \$38.7 billion for education programs and \$30.5 billion for health and human services programs. We audited 39 major federal programs or program clusters totaling \$72 billion (which represents 82 percent of the total federal assistance received) as determined by the parameters set out by the OMB.

### ***Key Findings***

For our audit of California's internal controls and compliance with state and federal laws and regulations for the fiscal year ended June 30, 2008, we reviewed the major federal programs or program clusters in 19 state departments. Below are some key results:

- More than half of the 138 findings we identified in this audit were also reported in the prior year. Further, in these findings, we noted:
  - More than 200 material and significant deficiencies in internal controls.

- The State did not comply with certain federal requirements in 20 of the 39 major programs or program clusters that we audited. Further, we could not express an opinion as to whether the State complied with certain requirements for nine programs or program clusters because of insufficient documentation.
- We also reported issues that encompass all programs and are therefore statewide issues:
  - California's automated accounting system does not identify expenditures for each individual federal award program.
  - The State still does not have adequate written policies and procedures to, nor did it, accurately calculate federal and other interest liabilities by program as required in its agreement with the federal government for cash management.
  - The database the State uses to prepare its statewide cost allocation plan, which is used to recover a portion of the State's costs for administering federal programs, is problematic in that the programming is difficult to understand and inadequately documented, and errors are difficult to identify and correct. Further, the State did not submit required information with the proposed cost allocation plan.
  - The State cannot ensure local governments are taking prompt and appropriate corrective action to address audit findings after it receives the local governments' audit reports.
    - ✓ The federal government requires the State to issue management decisions on audit findings within six months of the State receiving these reports.
    - ✓ Local governments submit copies of their audit reports performed in accordance with the Single Audit Act and corrective action plans to the State Controller's Office (SCO) for certification.
    - ✓ We found that for 26 of the 58 counties, the SCO took between 1.2 months and 9.2 months to certify audit reports and forward the reports and corrective action plans to the appropriate state departments.

### ***Areas of High Risk***

The table on page 4 of this document is an excerpt from our Compliance and Internal Control Summary on our Web site. It provides a high-level summary of the issues we noted during our audit of the 39 major federal programs or program clusters both in terms of deficiencies in the system of internal control and instances of noncompliance with federal requirements by department. The issues are categorized by the severity of the deficiencies or noncompliance.

**Compliance and Internal Control Deficiencies of Certain Departments  
 Fiscal Year Ended June 30, 2008**

Department	Expected Recovery Act Funds * (Dollars in Millions)		Internal Control Deficiencies		Instances of Noncompliance	
	FY 2008-09	FY 2009-10	Material	Significant	Most Severe	Less Severe
Education	\$6,324.1	\$5,459.7	24	76	12	41
Employment Development	1,800.5	3,179.3	7	5	0	12
Health Care	3,286.9	4,496.9	6	7	7	5
Social Services	332.4	891.8	23	7	14	11
Transportation	NI	780.0	1	0	0	0

NI = None Identified

\* Source: California Economic Recovery Portal Web site.

***Projections for 2009 Single Audit***

Although many questions need to be answered and more guidance is forthcoming, it is clear that the influx of an estimated \$46 billion of federal Recovery Act funds will create additional oversight and accountability responsibilities for independent state auditors including my office. Additionally, the Recovery Act calls for “real time” auditing and oversight as the funds are being allocated and expended. To gauge what lies ahead, we performed various analyses of prior year’s federal awards compared to the amount of Recovery Act funds the State expects to receive. We also determined which programs would qualify as “major federal programs or program clusters” using the formulas set out by the federal OMB.

To determine whether programs would be of high risk, below are some of the factors we considered:

- Did the State receive more than \$96 million in federal funds for this program?
- Does California expect to receive Recovery Act funds?
- Does the Recovery Act significantly increase the program?
- Were there deficiencies identified in prior Single Audits?
- Is this a new program?
- Has this program been audited in the last two years?
- Have laws, rules, and regulations changed significantly?
- Has there been significant changes in the department’s administration?

We anticipate that we will be required to audit at least 41 major federal programs or clusters of programs in the upcoming fiscal year.

Below are a few examples of our risk assessment of federal programs.

### Examples of Federal Programs Identified as High Risk

Program	Projected Receipts 6-30-09 (in millions)	Projected Recovery Act Funds		Program Audited in Prior Two Years?	Known Deficiencies Per Single Audit?	Comments
		FY 2008-09 (in millions)	FY 2009-10 (in millions)			
<i>Programs Audited With Identified Deficiencies</i>						
Title 1 Grants to Local Educational Agencies (84.010)	\$1,414.0	\$564	\$947	Yes	Yes	<ul style="list-style-type: none"> <li>▪ Program receives large amount of federal funds</li> <li>▪ Program doubles with Recovery Act funding</li> </ul>
Special Education—Grants to States (84.027)	1,272.0	613	614	Yes	Yes	<ul style="list-style-type: none"> <li>▪ Program receives large amount of federal funds</li> <li>▪ Program doubles with Recovery Act funding</li> </ul>
<i>Programs Not Audited Within the Past Two Years</i>						
Food Stamps (10.551)	4,323.0	140	560	No	N/A	<ul style="list-style-type: none"> <li>▪ Program receives large amount of federal funds</li> <li>▪ Recovery Act funding</li> </ul>
Highway Planning and Construction (20.205)	3,028.0	0	780	No	N/A	<ul style="list-style-type: none"> <li>▪ Program receives large amount of federal funds</li> <li>▪ Significant Recovery Act funding expected</li> </ul>
<i>Programs With Significant Increase of Monies Due to Influx of Recovery Act Funds</i>						
State Energy Program (81.041)	3.0	0	239	No	N/A	<ul style="list-style-type: none"> <li>▪ Program traditionally receives small amount of federal funds</li> <li>▪ Significant Recovery Act funding expected</li> <li>▪ Has not been audited</li> </ul>
Weatherization Assistance for Low-Income Persons (81.042)	5.5	93	93	No	N/A	<ul style="list-style-type: none"> <li>▪ Program traditionally receives small amount of federal funds</li> <li>▪ Significant Recovery Act funding expected</li> <li>▪ Has not been audited</li> </ul>

### *Our Plan of Action*

Because of the concerns related to internal controls, the large amounts of Recovery Act funds California is expected to receive, the requirements the federal government is imposing on recipients, and the limited time the State has to spend some of the funding, we have designated California's system for administering federal Recovery Act funds as a statewide high-risk issue area. Thus, we are exercising the California State Auditor's authority to initiate audits in areas of high risk and conduct a review of the State's and selected departments' readiness to comply with applicable federal Recovery Act requirements and to efficiently and effectively use the funds received under this act.

In carrying out our responsibilities as mandated to perform the statewide Single Audit as the independent State Auditor, we plan to continue with the following:

- Highlight areas of known deficiencies via public reports, letters, and our Web site so that the administration can take corrective action and be better prepared to receive Recovery Act funds.
- Identify areas of high risk to pinpoint vulnerabilities and mitigate risk.
- In addition to performing tests for the Single Audit of the fiscal year ending June 30, 2009, we plan to test internal controls for fiscal year ending June 30, 2010 early<sup>1</sup> in particular for those departments that have not been audited in the last two years, that have traditionally received lower amounts of or no federal funds and are now anticipating vast amounts of Recovery Act funds, and those with known deficiencies.
- Report frequently to assist the administration in ensuring Recovery Act monies are used only for eligible purposes and to prevent, detect, and correct any fraud, waste, and abuse.
- Update the Web site frequently to make information more quickly and readily available. (Following the testimony are screen prints of selected pages from our Web site for examples of information that is already available.)
- Coordinate with the GAO, federal inspector generals, and other oversight entities to avoid duplication.

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<sup>1</sup> The GAO has recommended that the Single Audit process be adjusted and that two items be accomplished during 2009 before significant expenditures of funds in 2010: (1) to review the design and implementation of internal control over compliance and financial reporting for programs under the Recovery Act and (2) to consider risks related to Recovery Act programs in determining which programs are major programs (GAO-09-531T).

## **Reporting Fraud, Waste, and Abuse**

The Recovery Act encourages the reporting and investigation of waste, fraud, and abuse that occurs in connection with the distribution of federal stimulus funds to state and local governments and to private contractors.

### ***Whistleblower Provisions of the Recovery Act***

The Recovery Act prohibits any nonfederal employer who receives stimulus funds under a contract or grant from retaliating against any employee for disclosing to either the employer, certain specified federal officials including inspectors general, or any state or federal regulatory or law enforcement agency any of the following:

- Gross mismanagement of the contract or grant.
- Gross waste of stimulus funds.
- Any danger to public health or safety related to the use of stimulus funds.
- Abuse of authority related to stimulus funds.
- Violations of any statute, regulation, or rule relating to the contract or grant.

Any person who believes he or she has been the victim of retaliation may file a complaint with the appropriate federal inspectors general.

The federal inspector general has a general obligation to investigate complaints of retaliation unless they are frivolous, do not involve stimulus funds, or another state or federal agency has already undertaken an administrative proceeding regarding the subject of the complaint.

Generally, within 180 days of receiving a retaliation complaint, the federal inspector general shall investigate the complaint and issue a report on the findings of the investigation to the complainant, the employer, the head of the federal agency administering the contract or grant, and the Recovery Accountability and Transparency Board. However, the federal inspector general and the complainant may, by agreement, extend the 180-day deadline as they see fit, or the federal inspector general may unilaterally extend the deadline for an additional 180 days with the issuance of a written explanation to the complainant.

Despite having a general obligation to investigate retaliation complaints as stated above, a federal inspector general may decline to investigate a complaint or terminate an investigation without issuing a report upon issuing an explanation to the complainant and the employer.

If the federal inspector general issues a report that finds retaliation has occurred, the head of the concerned federal agency receiving the report shall order the employer to do any or all of the following:

- Abate the retaliation.
- Reinstate the complainant to his or her position held prior to the retaliation with the payment of back pay and any other compensatory damages.
- Pay the complainant's costs in pursuing the complaint, including attorney fees.

The concerned federal agency may enforce its orders through a lawsuit filed in federal court.

If the federal inspector general decides not to investigate a retaliation complaint or finds that retaliation has not occurred, the complainant is still empowered to bring suit for retaliation in federal court on his or her own behalf.

### ***California Whistleblower Provisions***

Under authority granted by the California Whistleblower Protection Act, the California State Auditor conducts investigations into improper governmental activities by state agencies and by state employees during the performance of their duties. An "improper governmental activity" is any action that violates the law; is economically wasteful; or involves gross misconduct, incompetency, or inefficiency. The State Auditor conducts investigations in response to complaints received from state employees and from members of the public. Investigations may also be conducted on the State Auditor's own initiative. The State Auditor receives complaints by telephone, by mail, in person, and through its Web site. Complainants have a right to remain confidential. Typically, the State Auditor will receive more than 4,000 complaints per year. Employees of government and private businesses receiving federal stimulus funds are given special protection under the law against retaliation by their employer for reporting any of the following:

- Gross mismanagement of a contract or grant.
- Gross waste of stimulus funds.
- Any danger to public health or safety related to the use of stimulus funds.
- Abuse of authority related to stimulus funds.
- Violations of any statute, regulation, or rule relating to a contract or grant.

These protections are in addition to the protections against retaliation otherwise afforded to California state employees who file a complaint under the California Whistleblower Protection Act.

Anyone can report fraud, waste, and abuse involving federal stimulus funds to the State Auditor. Although the State Auditor is only authorized to investigate reports about California state agencies and employees, any reports received by the State Auditor about the misuse of federal stimulus funds by agencies and persons outside the State Auditor's

jurisdiction will be referred by investigative staff to the appropriate authorities. Anyone complaining to the State Auditor about a misuse of stimulus funds has a right to remain confidential. Complaints can be filed anonymously.

### *Our Plan of Action*

Based on discussions with federal inspectors general and other federal entities and in carrying out our responsibilities as authorized by the California Whistleblower Protection Act, we plan to continue with the following:

- Establish protocols to prioritize complaints of fraud, waste, and abuse regarding the use of Recovery Act funds.
- Coordinate with both the federal inspectors general and the federal Recovery Accountability and Transparency Board to ensure complaints of alleged fraud, waste, and abuse are handled appropriately, investigated properly, and dealt with promptly.
- Revise the California State Auditor's annual notification to all state employees that makes all employees aware of the California Whistleblower Protection Act, our hotline, their rights, and how to file a complaint if they suspect improprieties.

## Attachment

### 14 General Compliance Requirements

	<b>Compliance Requirement</b>	<b>Brief Description of Requirement</b>
1.	Activities Allowed or Unallowed	Specifies the activities that can or cannot be funded under a specific program.
2.	Allowable Costs/Cost Principles	Describes selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates.
3.	Cash Management	Establishes how recipients of federal funds must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury to disbursement.
4.	Davis-Bacon Act	With regards to construction contracts, specifies requirements for wages of laborers and mechanics employed by contractors or subcontractors, when required by the Davis-Bacon Act.
5.	Eligibility	Specifies criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify.
6.	Equipment and Real Property Management	Provides requirements for purchasing, using, managing and disposing of equipment and real property.
7.	Matching, Level of Effort, Earmarking	Specifies requirements to provide contributions of a specified amount or percentage to match federal awards, a specified level of service and expenditures for specified activities, and the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities.
8.	Period of Availability of Funds	Provides the time period during which federal funds may be used.
9.	Procurement and Suspension and Debarment	Stipulates how to procure goods or services and prohibits contracting or making subawards to parties that are suspended or debarred.
10.	Program Income	Provides requirements related to gross income—income that is directly generated by the federally funded project during the grant period. Generally program income is deducted from program outlays.
11.	Real Property Acquisition and Relocation Assistance	Governs how property is acquired to ensure uniform and equitable treatment of persons displaced from their homes, businesses, or farms by federally assisted programs.
12.	Reporting	Specifies the nature, form, and timing of financial reports.
13.	Subrecipient Monitoring	Identifies responsibilities for pass-through entities (those that provide funds to subrecipients and others) with regards to awarding, monitoring, and auditing federal funds.
14.	Special Tests and Provisions	Specific requirements, which are unique to each federal program that are found in the laws, regulations, and the provisions of contracts or grant agreements pertaining to the program.

## STATE AUDITOR'S OVERSIGHT

The California State Auditor is the State's independent and nonpartisan audit, evaluation, and investigative arm of the Legislature and the citizens of California. In addition to conducting high risk assessments as authorized by statute, investigations of misconduct by state employees, and audits as requested and approved by the Joint Legislative Audit Committee or mandated in statute, the State Auditor is responsible for annually conducting California's statewide Single Audit. The Single Audit is a combination of the independent audit of the State's basic financial statements and the independent audit of numerous federal programs administered by California. Since 1984 the Single Audit is required as a condition for California to receive billions in federal funds each year. In Fiscal Year 2007-08, California received more than \$75 billion in federal funds.

As the State's external independent auditor, the State Auditor is the only entity that has by statute, full access to all records, accounts, correspondence, property or other files of state and local agencies, special districts, public contractors, and school districts. General powers of the State Auditor include the ability to subpoena records, take depositions, and administer oaths. The State Auditor's Office (office) is responsible for evaluating departments' administration and management of public funds and programs to assure that the proper checks and balances are in place. In addition, the office evaluates departments' compliance with laws and regulations. Although our audits encompass a wide range of topics, our staff are highly trained professionals with a depth and breadth of experience that allows them to evaluate programs and recommend ways to make government more efficient, improve management controls, and instill best practices.

For the past 25 years, the State Auditor's Office and its predecessor has reported on the State's ability to comply with federal program requirements—both by department and by program. The number and type of federal programs audited each year as part of the Single Audit is formula-driven as stipulated by the federal Office of Management and Budget (OMB). In the fiscal year ending June 30, 2007, California received \$76 billion in federal funds, and the office audited \$59 billion, or 78 percent of those funds.

Given the vast amount of federal funds that California expects to receive under the federal American Recovery and Reinvestment Act of 2009 (Recovery Act), oversight and accountability responsibilities for state auditors including the California State Auditor's Office will increase dramatically. In fact, because of concerns related to internal controls, the large amount of Recovery Act funds California expects to receive, the new requirements the federal government is imposing on recipients, and the limited time the State has to spend some of the funding, we added California's system for administering federal Recovery Act funds to our list of statewide high-risk issue areas.

The links below will provide more information about high-risk issues and the Single Audit. In addition, we have summarized the findings and information from the two most recent Single Audits in a variety of ways to assist you in identifying areas of risk regarding the use of federal Recovery Act funds.

- [About the Single Audit](#)
- Results of the Single Audits:
  - [2007](#)
  - [2008](#)
- [High-Risk Series Reports](#)

Source: [www.bsa.ca.gov/stimulus/oversight](http://www.bsa.ca.gov/stimulus/oversight)

## ABOUT THE SINGLE AUDIT

### Audit of Federal Programs

The California State Auditor's Office conducts all audits in accordance with audit standards issued by the U.S. Comptroller General's Government Accountability Office (GAO), including standards that we must follow as an independent auditor. To preserve the independence of our office and to ensure the receipt of federal funds, state law requires the State Auditor to follow those standards that explicitly free the auditor from control by the executive branch.

Congress created the Single Audit Act of 1984 (Act) to improve auditing and management of federal funds provided to state and local governments. The Act requires a single organization-wide financial and compliance audit for state and local governments. The Act is intended to promote sound financial management, including effective internal controls, with respect to federal awards administered by state and local governments and nonprofits. Internal controls encompass a system of accounting and administrative controls. Such controls include management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. State law requires each state agency to establish and maintain a system of internal accounting and administrative controls.

In addition to internal controls, the Act focuses on compliance with laws and regulations governing federal awards. Compliance refers to how well the respective agency receiving federal funds complies with the requirements in federal law, regulations, contracts, and grants applicable to each of its federal programs.

As required by the Act, the State Auditor complies with Generally Accepted Government Auditing Standards when conducting the financial and federal compliance audit. The GAO issues these standards. In addition, the U.S. Office of Management and Budget (OMB) issues guidance for auditors to follow when conducting the Single Audit. This guidance is intended to provide for consistency and uniformity for the audit of the expenditure of federal awards by states, local governments, and nonprofit organizations.

You can learn more about OMB at its Web site [www.whitehouse.gov](http://www.whitehouse.gov).

The OMB's *Initial Implementing Guidance* recognizes the importance of the Single Audit in two key ways: first, in assessing risk, agencies should consider prior audit findings involving federal programs through which Recovery Act funds will be disbursed; and second, Single Audits are specifically identified in the OMB guidance as an audit tool integral to promoting accountability over Recovery Act funds. Clearly, the importance of the Single Audit process is magnified by the Recovery Act's emphasis on accountability.

The OMB also reported that Single Audits will be made public through the federal Web site [www.Recovery.gov](http://www.Recovery.gov).

The California State Auditor will continue her practice of making all audit reports, including the Single Audit, easily accessible to the public via the California State Auditor's Web site. Use the links below to view the summaries of the State of California's most recent Single Audits.

- [2007](#)
- [2008](#)

Source: [www.bsa.ca.gov/stimulus/single\\_audit](http://www.bsa.ca.gov/stimulus/single_audit)

## SINGLE AUDIT FOR 2007

As required by the federal Single Audit Act, each year the California State Auditor's office reviews and evaluates how well State entities administer federal programs. These audits involve several assessments. First, we review each entity's internal controls such as the system of accounting and administrative controls. Such controls include management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting. State law requires each state agency to establish and maintain a system of internal accounting and administrative controls.

In addition to internal controls, the act focuses on the entity's compliance with laws and regulations governing federal awards. Compliance refers to how well the respective agency receiving federal funds complies with the requirements in federal law, regulations, contracts, and grants applicable to each of its federal programs. At a minimum we review how well the entities comply with the 14 types of requirements applicable to most federal programs.

The number of programs we review is formula-driven and risk-based per the guidance of the federal Office of Management and Budget (OMB). For the fiscal year ending June 30, 2007, the State Auditor's Office audited 43 major programs and clusters of program that met monetary thresholds and that we deemed to be high-risk.

### **Summaries of the 2007 Single Audit (Fiscal Year ended June 30, 2007)**

Of the 43 federal programs and program clusters we audited, we were not able to express an opinion (we disclaimed an opinion) for some requirements in 11 federal programs and program clusters. For example, we were unable to obtain sufficient documentation supporting the State's compliance with certain requirements.

To view the eleven affected programs use link below.

- [Disclaimer of Opinion](#)

The following tables provide you with an overview of the issues we noted during our 2007 Single Audit.

- [Compliance and Internal Control Summary](#)
- [Internal Control Summary by Requirement Type](#)
- [Noncompliance Summary by Requirement Type](#)
- [Summary of Internal Control Deficiencies by Department](#)
- [Summary of Departments' Noncompliance with Requirements](#)
- [Internal Control Deficiencies by Federal Program](#)
- [Summary of Noncompliance by Federal Program](#)

Lastly, the drop-down menus below will allow you to create your own table based on your needs.

<b>Noncompliance:</b>	<input type="text"/>
<b>Internal Control Deficiencies:</b>	<input type="text"/>
<b>Requirement Type:</b>	<input type="text"/>
<b>Federal Department:</b>	<input type="text"/>
<b>State Department:</b>	<input type="text"/>
<b>Program:</b>	<input type="text"/>
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### Auditor Conclusions

After assessing these programs, our office is required to issue an independent auditor's report on the State's compliance with requirements applicable to each major program and on internal controls. This includes our assessment of each entity's internal controls and an evaluation of how well the entity administered the federal funds and complied with the 14 types of requirements and any specific requirements set out by the federal government. If, during our assessment, we find deficiencies in the internal controls or failure to comply with the provisions mandated, we must report it to the federal government. If we believe that the noncompliance is material to the program, we must "qualify" our opinion—in other words, we must alert the federal government by identifying such issues in our report.

There are four types of auditor's opinions we can express:

- Unqualified—often referred to as a clean opinion. The State generally complied with applicable requirements.
- Qualified—often referred to as an "except for" opinion. The State generally complied with applicable requirements "except for" the condition(s) described in the report.
- Adverse—The State did not comply with the applicable requirements.
- Disclaimer—we are unable to express an opinion because of restrictions that prevented us from completing the planned audit procedures.

[A summary of the types of auditor reports we issued for the 2007 Single Audit is available.](#)

To view the entire 2007 Single Audit report, [Full Report PDF](#).

Source: [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2007](http://www.bsa.ca.gov/stimulus/single_audit_findings/2007)

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The number of programs we review is formula-driven and risk-based per the guidance of the federal Office of Management and Budget (OMB). For the fiscal year ending June 30, 2008, the State Auditor's Office audited 39 major programs and clusters of program that met monetary thresholds and that we deemed to be high-risk.

### **Summaries of the 2008 Single Audit (Fiscal Year ended June 30, 2008)**

Of the 39 federal programs and program clusters we audited, we were not able to express an opinion (we disclaimed an opinion) for some requirements in 9 federal programs and program clusters. For example, we were unable to obtain sufficient documentation supporting the State's compliance with certain requirements.

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### Auditor Conclusions

After assessing these programs, our office is required to issue an independent auditor's report on the State's compliance with requirements applicable to each major program and on internal controls. This includes our assessment of each entity's internal controls and an evaluation of how well the entity administered the federal funds and complied with the 14 types of requirements and any specific requirements set out by the federal government. If, during our assessment, we find deficiencies in the internal controls or failure to comply with the provisions mandated, we must report it to the federal government. If we believe that the noncompliance is material to the program, we must "qualify" our opinion—in other words, we must alert the federal government by identifying such issues in our report.

There are four types of auditor's opinions we can express:

- Unqualified—often referred to as a clean opinion. The State generally complied with applicable requirements.
- Qualified—often referred to as an "except for" opinion. The State generally complied with applicable requirements "except for" the condition(s) described in the report.
- Adverse—The State did not comply with the applicable requirements.
- Disclaimer—we are unable to express an opinion because of restrictions that prevented us from completing the planned audit procedures.

[A summary of the types of auditor reports we issued for the 2008 Single Audit is available.](#)

To view the entire 2008 Single Audit report, [Full Report PDF](#).

**Source:** [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2008](http://www.bsa.ca.gov/stimulus/single_audit_findings/2008)

## SINGLE AUDIT FINDINGS FOR 2008

This table provides you with a high-level summary of the issues we noted during our audit of the major federal programs both in terms of deficiencies in the system of internal control and instances of noncompliance with federal requirements by department. The issues are categorized by the severity of the deficiencies or noncompliance. Additionally, for the departments we audited under the Single Audit, we obtained estimated dollar amounts departments are expected to receive under the Recovery Act.

Compliance and Internal Control Summary						
Department	Federal Stimulus (Recovery Act) Funds Estimated (in millions)*		Internal Control Deficiencies		Instances of Noncompliance†	
	Fiscal Year 2008-09 (or before)	Fiscal Year 2009-10	Material	Significant	Most Severe	Less Severe
Aging	\$6.9	\$4.9	<u>7</u>	<u>3</u>	0	<u>7</u>
Alcohol and Drug	NI	NI	<u>5</u>	<u>2</u>	<u>6</u>	<u>3</u>
California Volunteers	NI	NI	<u>1</u>	<u>2</u>	<u>1</u>	<u>2</u>
Child Support Services	\$20.4	\$27.7	<u>4</u>	0	<u>3</u>	0
Community Services & Development	\$182.9	\$94.4	<u>1</u>	<u>3</u>	0	<u>3</u>
Corrections & Rehabilitation	NI	NI	0	<u>1</u>	0	<u>1</u>
Development Services	\$28.2	\$28.3	<u>5</u>	0	<u>1</u>	<u>1</u>
Education	\$6,324.1	\$5,459.7	<u>24</u>	<u>76</u>	<u>12</u>	<u>41</u>
Emergency Services	NI	NI	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Employment Development	\$1,800.5	\$3,199.3	<u>7</u>	<u>5</u>	0	<u>12</u>
Health Care	\$3,286.9	\$4,496.9	<u>6</u>	<u>7</u>	<u>7</u>	<u>5</u>
Housing and Community Development	NI	\$55.1	<u>3</u>	<u>8</u>	<u>6</u>	<u>2</u>
Industrial Relations	NI	NI	0	<u>3</u>	0	<u>4</u>
Mental Health	NI	NI	<u>9</u>	0	<u>4</u>	0
Military	NI	NI	<u>1</u>	0	<u>1</u>	<u>1</u>
Public Health	NI	\$291.5	<u>2</u>	<u>10</u>	<u>2</u>	<u>8</u>
Secretary of State	NI	NI	<u>2</u>	0	<u>1</u>	<u>1</u>
Social Services	\$332.4	\$891.8	<u>23</u>	<u>7</u>	<u>14</u>	<u>11</u>
Student Aid	NI	NI	<u>1</u>	0	0	0
Transportation	NI	\$780.0	<u>1</u>	0	0	0
Veterans Affairs	NI	NI	0	<u>1</u>	0	<u>1</u>

\*Source: California Economic Recovery Portal Web site [www.recovery.ca.gov](http://www.recovery.ca.gov). The dollar amounts shown include only those amounts expected to be provided directly to the state entities or to be shared between state entities and non-state entities. If the funds are to be shared between entities, we allocated the funds proportionately.

† Excludes [statewide issues](#).

NI = None identified

Source: [www.bsa.ca.gov/stimulus/department\\_summary\\_table/2008](http://www.bsa.ca.gov/stimulus/department_summary_table/2008)

## SINGLE AUDIT FINDINGS FOR 2008

This table provides you with a high-level summary of the internal control deficiencies associated with the 14 requirement types that we noted during our audit of the major federal programs. The issues are categorized by the severity of the control deficiencies and noncompliance.

<b>Internal Control Summary by Requirement Type</b>		
<b>Requirement Type*</b>	<b>Degree of Internal Control Deficiencies</b>	
	<u>Material</u>	<u>Significant</u>
<b><u>Activities Allowed or Unallowed</u></b>	0	<u>2</u>
<b><u>Activities Allowed or Unallowed &amp; Allowable Costs/Cost Principles</u></b>	<u>12</u>	<u>4</u>
<b><u>Allowable Costs/Cost Principles</u></b>	<u>5</u>	<u>4</u>
<b><u>Cash Management</u></b>	<u>11</u>	<u>18</u>
<b><u>Eligibility</u></b>	<u>3</u>	<u>4</u>
<b><u>Matching, Level of Effort, Earmarking</u></b>	<u>12</u>	<u>19</u>
<b><u>Period of Availability of Funds</u></b>	<u>19</u>	<u>3</u>
<b><u>Procurement and Suspension and Debarment</u></b>	<u>12</u>	<u>1</u>
<b><u>Reporting</u></b>	<u>6</u>	<u>15</u>
<b><u>Special Tests and Provisions</u></b>	<u>7</u>	<u>7</u>
<b><u>Subrecipient Monitoring</u></b>	<u>17</u>	<u>53</u>
Totals	<u>104</u>	<u>130</u>

\* No issues noted for the following requirement types: Davis-Bacon Act, Equipment and Real Property Management, Real Property Acquisition and Relocation Assistance, and Program Income.

Source: [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2008/cr\\_ic](http://www.bsa.ca.gov/stimulus/single_audit_findings/2008/cr_ic)

## SINGLE AUDIT FINDINGS FOR 2008

This table provides you with a high-level summary of the compliance deficiencies associated with one or more of the 14 requirement types that we noted during our audit of the major federal programs. The issues are categorized by the severity of the noncompliance by requirement type.

Noncompliance Summary by Requirement Type		
Requirement Type*	Degree of Noncompliance	
	<a href="#">Most severe</a>	<a href="#">Less severe</a>
<b><u>Activities Allowed or Unallowed</u></b>	0	0
<b><u>Activities Allowed or Unallowed &amp; Allowable Costs/Cost Principles</u></b>	<a href="#">4</a>	<a href="#">5</a>
<b><u>Allowable Costs/Cost Principles</u></b>	<a href="#">2</a>	<a href="#">6</a>
<b><u>Cash Management</u></b>	<a href="#">10</a>	<a href="#">14</a>
<b><u>Eligibility</u></b>	<a href="#">2</a>	<a href="#">4</a>
<b><u>Matching, Level of Effort, Earmarking</u></b>	<a href="#">4</a>	<a href="#">1</a>
<b><u>Period of Availability of Funds</u></b>	<a href="#">5</a>	<a href="#">4</a>
<b><u>Procurement and Suspension and Debarment</u></b>	<a href="#">10</a>	<a href="#">3</a>
<b><u>Reporting</u></b>	<a href="#">3</a>	<a href="#">16</a>
<b><u>Special Tests and Provisions</u></b>	<a href="#">5</a>	<a href="#">6</a>
<b><u>Subrecipient Monitoring</u></b>	<a href="#">15</a>	<a href="#">46</a>
Totals	<a href="#">60</a>	<a href="#">105</a>

\* No issues noted for the following requirement types: Davis-Bacon Act, Equipment and Real Property Management, Real Property Acquisition and Relocation Assistance, and Program Income.

[Statewide Issues](#)

Source: [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2008/cr\\_nc](http://www.bsa.ca.gov/stimulus/single_audit_findings/2008/cr_nc)

## SINGLE AUDIT FINDINGS FOR 2008

This table provides you with a high-level summary of the issues we noted during our audit of the major federal programs in terms of deficiencies in the system of internal controls by department. Internal controls include management and program policies, procedures, and guidance that help ensure effective and efficient use of resources; prevention and detection of fraud, waste, and abuse; and the reliability of financial reporting.

Summary of Internal Control Deficiencies by Department		
State Department	Degree of Internal Control Deficiencies	
	Material	Significant
Aging	<u>7</u>	<u>3</u>
Alcohol and Drug	<u>5</u>	<u>2</u>
California Volunteers	<u>1</u>	<u>2</u>
Child Support Services	<u>4</u>	0
Community Services & Development	<u>1</u>	<u>3</u>
Corrections & Rehabilitation	0	<u>1</u>
Development Services	<u>5</u>	0
Education	<u>24</u>	<u>76</u>
Emergency Services	<u>2</u>	<u>2</u>
Employment Development	<u>7</u>	<u>5</u>
Health Care	<u>6</u>	<u>7</u>
Housing and Community Development	<u>3</u>	<u>8</u>
Industrial Relations	0	<u>3</u>
Mental Health	<u>9</u>	0
Military	<u>1</u>	0
Public Health	<u>2</u>	<u>10</u>
Secretary of State	<u>2</u>	0
Social Services	<u>23</u>	<u>7</u>
Student Aid	<u>1</u>	0
Transportation	<u>1</u>	0
Veterans Affairs	0	<u>1</u>
Totals	<u>104</u>	<u>130</u>

Source: [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2008/dp\\_ic](http://www.bsa.ca.gov/stimulus/single_audit_findings/2008/dp_ic)

## SINGLE AUDIT FINDINGS FOR 2008

This table provides you with a high-level summary of the issues we noted during our audit of the major federal programs. The table identifies the number and severity of instances of noncompliance with federal requirements by department.

Summary of Departments' Noncompliance with Requirements		
State Department	Degree of Noncompliance	
	Most severe	Less severe
Aging	0	<u>7</u>
Alcohol and Drug	<u>6</u>	<u>3</u>
California Volunteers	<u>1</u>	<u>2</u>
Child Support Services	<u>3</u>	0
Community Services & Development	0	<u>3</u>
Corrections & Rehabilitation	0	<u>1</u>
Development Services	<u>1</u>	<u>1</u>
Education	<u>12</u>	<u>41</u>
Emergency Services	<u>2</u>	<u>2</u>
Employment Development	0	<u>12</u>
Health Care	<u>7</u>	<u>5</u>
Housing and Community Development	<u>6</u>	<u>2</u>
Industrial Relations	0	<u>4</u>
Mental Health	<u>4</u>	0
Military	<u>1</u>	<u>1</u>
Public Health	<u>2</u>	<u>8</u>
Secretary of State	<u>1</u>	<u>1</u>
Social Services	<u>14</u>	<u>11</u>
Student Aid	0	0
Transportation	0	0
Veterans Affairs	0	<u>1</u>
Totals	<u>60</u>	<u>105</u>

[Statewide Issues](#)

Source: [www.bsa.ca.gov/stimulus/single\\_audit\\_findings/2008/dp\\_nc](http://www.bsa.ca.gov/stimulus/single_audit_findings/2008/dp_nc)